Bank of Cyprus Group

Announcement

Group Financial Results for the nine months ended 30 September 2014

Nicosia, 27 November 2014

Bank of Cyprus Group's CEO Statement:

"During the third quarter of 2014 we reached a major milestone in our effort to strengthen the Bank's balance sheet. We completed a €1 bn share capital increase, comprising of a private placement among high quality institutional investors from Europe, North America and Russia and a placement with existing shareholders. As a result, the Bank's Common Equity Tier 1 capital ratio (transitional basis) was increased to 15,4% as at 30 September 2014. The size and timing of the capital increase allowed the Bank to pass the ECB's Comprehensive Assessment, demonstrating that the Bank has sufficient capital to withstand even the adverse stress scenario.

During the quarter we have made further progress in delivering against our strategic objectives. Profit after tax excluding one-off items for the third quarter of 2014 totalled €6 mn. Taking into account one-off items related to restructuring costs, the Bank incurred a loss after tax of €5 mn for the third quarter of 2014. Profit after tax excluding one-off items and profit after tax for the nine months ended 30 September 2014 totalled €84 mn and €76 mn, respectively. The Group's performance is underpinned by the performance of our core Cypriot operations, supporting our efforts of shrinking to strength through the disposal of non-core operations and assets. The balance sheet was deleveraged by a further €1,1 bn during the third quarter.

Our deposit base continues to stabilise, with the Bank experiencing positive customer flows during recent months, despite the release of €1,2 bn of blocked decree deposits in July and October 2014. The Restructuring and Recoveries Division (RRD) is making some progress in arresting the deterioration in the Bank's loan quality, despite the adverse legislative framework. Nevertheless, the on-going economic recession continues to impact the quality of the retail and SME clients.

Following the changes to the Bank's shareholder base, the shareholders elected a new Board of Directors on 20 November 2014. The new Board of Directors brings a wealth of banking and broader corporate experience and skills that will be of significant value as we continue to strengthen the Bank and position it to support, and benefit from, the economic recovery in Cyprus.

John Patrick Hourican, Group Chief Executive Officer

Group Profile

Founded in 1899, Bank of Cyprus Group is the leading banking and financial services group in Cyprus. The Group provides a wide range of financial products and services which include retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. The Group operates through a total of 262 branches, of which 126 operate in Russia, 130 in Cyprus, 1 in Romania, 4 in the United Kingdom and 1 in the Channel Islands. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 6.639 staff worldwide. At 30 September 2014, the Group's Total Assets amounted to €27,5 bn and Total Equity was €3,8 bn.

Notes to the Group Financial Results for the nine months ended 30 September 2014:

Following the Eurogroup decisions to recapitalise the Bank via a bail-in of depositors, the Bank was placed under resolution from 25 March 2013 until 30 July 2013, a period during which it was recapitalised and restructured in accordance with the following decrees issued by the Central Bank of Cyprus in its capacity as Resolution Authority:

1) Sale of the Greek banking and leasing operations as per the *Sale of the Greek operations of Bank of Cyprus Public Company Ltd Decree of 2013*.
2) Acquisition of Laiki's operations as per the *Sale of certain operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013.*
3) Compensation for assets and liabilities acquired from Laiki as per the *Bank of Cyprus Share Capital Issue for Compensation of Cyprus Popular Bank Public Co Ltd Decree of 2013.*
4) Recapitalisation of Bank of Cyprus as per the *Bailing-in of Bank of Cyprus Public Company Limited Decrees of 2013 up to (No. 3)*. Unsecured deposits are also calculated pursuant to the provisions of the decrees.
5) Acquisition of Laiki's branch operations in the UK as per the *Sale of certain operations in the United Kingdom of Cyprus Popular Bank Public Co Ltd Decree of 2013*.
6) Disposal of the Bank's operations in Romania to Marfin Bank Romania as per the *Sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013*.

Due to the above transactions, the figures and financial results of the Group are not comparable with past financial results.

The Condensed Consolidated Financial Statements for the nine months ended 30 September 2014 have not been reviewed by the Bank's external auditors. The Condensed Consolidated Financial Statements are available at the Bank of Cyprus Public Company Ltd Registered Office (at 51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Investor Relations).

The announcement and the presentation of the financial results for the nine months ended 30 September 2014 have been posted on the Group's website www.bankofcyprus.com (Investor Relations).

A. Summary of Financial Results for the nine months ended 30 September 2014

Balance Sheet

- **The Common Equity Tier 1 capital (CET1) ratio (transitional basis) was strengthened to 15,4% at 30 September 2014, compared to 11,3% at 30 June 2014, primarily due to the €1 bn share capital increase completed in September 2014.**

- **At 30 September 2014, gross loans and deposits were €24,7 bn and €13,3 bn respectively, with the net loans to deposits ratio remaining at 148%.**

- **Emergency Liquidity Assistance (ELA) has been reduced to €7,68 bn at 30 September 2014 (compared to €8,78 bn at 30 June 2014 and a high of €11,4 bn at end April 2013), and accounted for 28% of total assets. ECB funding has been reduced to €920 mn at 30 September 2014 from €1,4 bn at 30 June 2014. Post 30 September 2014, ELA was reduced further by €180 mn and ECB funding was reduced further by €30 mn.**

- **Loans in arrears for more than 90 days (90+ DPD)[1] totalled €12.978 mn at 30 September 2014 and represented 52% of gross loans (90+ DPD ratio). 90+ DPD increased by 3% during the third quarter of 2014 (compared to an increase of 4% during the second quarter of 2014[2]), with the retail and SME portfolio continuing to deteriorate primarily due to the on-going recessionary conditions. The provision coverage ratio of 90+ DPD totalled 38%, while taking into account tangible collateral at fair value, the 90+ DPD are fully covered.**

Income Statement

- **Net interest income (NII) for the nine months ended 30 September 2014 was €790 mn, while the net interest margin (NIM) was 4,03%. NII for the third quarter of 2014 was €244 mn (compared to €279 mn for the second quarter of 2014) and the NIM was 3,83% (compared to 4,26% for the second quarter of 2014). The reduction in the NII during the third quarter of 2014 was mainly due to the repayment of €950 mn of a Cyprus sovereign bond held by the Bank and the reduction in the customer spread due to reduced lending rates.**

- **Total income for the nine months ended 30 September 2014 was €941 mn. Total income for the third quarter of 2014 was €291 mn, compared to €310 mn for the second quarter of 2014. Non-interest income for the third quarter of 2014 was €47 mn compared to €31 mn for the second quarter of 2014. Non-interest income for the second quarter of 2014 was negatively affected by impairments of Laiki related exposures transferred to the Bank totalling €32 mn.**

- **Total expenses for the nine months ended 30 September 2014 were €367 mn and the cost to income ratio was 39%. Total expenses for the third quarter of 2014 were €122 mn (compared to €121 mn for the second quarter of 2014) and the cost to income ratio was 42% (compared to 39% in the second quarter of 2014).**

[1] Loans in arrears for more than 90 days (90+ DPD) are defined as loans with a specific provision (i.e. impaired loans) and loans past-due for more than 90 days but not impaired.
[2] Adjusting for the disposal of the Ukrainian operations and of loans in Serbia.

- **Profit before provisions for impairment of customer loans, restructuring costs and discontinued operations for the nine months ended 30 September 2014 was €574 mn. Profit before provisions for impairment of customer loans, restructuring costs and discontinued operations for the third quarter of 2014 was €169 mn, compared to €189 mn for the second quarter of 2014.**

- **Provisions for impairment of customer loans for the nine months ended 30 September 2014 were €492 mn, with the provisioning charge accounting for 2,6% of gross loans on an annualised basis. Provisions for impairment of customer loans for the third quarter of 2014 were €163 mn (compared to €183 mn for the second quarter of 2014), with the provisioning charge accounting for 2,6% of gross loans on an annualised basis (compared to 2,8% for the second quarter of 2014).**

- **Profit after tax excluding one-off items (relating to restructuring costs, discontinued operations and net profit from disposal of non-core assets) for the nine months ended 30 September 2014 totalled €84 mn. Profit after tax excluding one-off items for the third quarter of 2014 totalled €6 mn, at the same level as the second quarter of 2014. Profit after tax excluding one-off items in the Cypriot operations for the nine months ended 30 September 2014 totalled €171 mn.**

- **Restructuring costs for the nine months ended 30 September 2014 totalled €32 mn. Loss from discontinuing operations for the nine months ended 30 September 2014 totalled €36 mn. During the nine months ended 30 September 2014, there was a profit of €60 mn from the disposal of non-core assets (i.e. the Ukrainian operations, the investment in Banca Transilvania, the loans in Serbia and the early repayment of a sovereign bond issued by the Republic of Cyprus).**

- **Profit after tax attributable to the owners of the Bank for the nine months ended 30 September 2014 totalled €76 mn. Loss after tax attributable to the owners of the Bank for the third quarter of 2014 totalled €5 mn, compared to a profit of €50 mn for the second quarter of 2014.**

B. Analysis of Financial Results for the nine months ended 30 September 2014

B.1 Balance Sheet Analysis

B.1.1 Capital Base

The Group's shareholders' equity at 30 September 2014 totalled €3.785 mn, following the €1 bn share capital increase completed in September 2014. The **CET1 ratio (transitional basis) increased to 15,4%** at 30 September 2014 (compared to 11,3% at 30 June 2014). Adjusting for Deferred Tax Assets, the **CET1 ratio (fully-loaded basis)** totalled 14,9% at 30 September 2014.

Due to the pre-emptive capital increase, the Bank passed the ECB's Comprehensive Assessment, as announced on 26 October 2014. The share capital increase generated a comfortable capital buffer, ensuring that the Bank could withstand even the adverse stress scenario envisaged by the authorities. Accordingly, as a result of the application of the Asset Quality Review (AQR) and the stress test, and taking into account the capital increase, the AQR Adjusted CET1 ratio (based on transitional arrangements as of 1.1.2014) was estimated at 11,53%, the Adjusted CET1 ratio after the Baseline Scenario was estimated at 11,62% (compared to a minimum required of 8%) and the Adjusted CET1 ratio after the Adverse Scenario was estimated at 5,85% (compared to a minimum required of 5,5%).

As part of Phase 3 of its Share Capital Increase[3], the Bank will proceed with a Retail Offer of up to €100 mn of new ordinary shares for subscription by existing shareholders at €0,24. Assuming a full take up of the Retail Offer, there will be a 40 basis points positive impact on the Bank's regulatory capital ratios.

B.1.2 Deposits and Loans

The Group's total deposits were €13.330 mn at 30 September 2014, compared to €13.803 mn at 30 June 2014. The reduction in the stock of deposits during the third quarter of 2014 reflects the on-going deleverage with customers using their savings to reduce their borrowings, the release of €600 mn of blocked decree deposits at the end of July 2014, the public debate during the period regarding the foreclosure and insolvency legislation and seasonality factors.

Despite the reduction in the stock of deposits, post April 2014, the Bank experienced customer inflows[4] for every month with the exception of August 2014.

At 30 September 2014, deposits in Cyprus accounted for 84% of Group deposits, deposits in the United Kingdom for 10% and deposits in Russia for 6%. The Bank's deposit market share[5] in Cyprus was 24,9% at 30 September 2014, compared to 25,5% at 30 June 2014.

Customer deposits remain the primary source of funding and accounted for 48% of assets as at 30 September 2014. The ratio of net loans to deposits totalled 148% at 30 September 2014, at a similar level as at 30 June 2014.

---

[3] The Share Capital Increase was approved by the Bank's shareholders at an Extraordinary General Meeting on 28 August 2014 and Phases 1 and 2 were completed on 18 September 2014.
[4] Customer flows are defined as the difference between changes in stock of customer deposits and changes in stock of gross customer loans.
[5] Based on Central Bank of Cyprus data.

In addition to the restrictive measures applicable for the Cypriot banking system as a whole, additional restrictive measures applicable to the Bank's deposits affected by the bail-in[6] were introduced. Out of the €2,8 bn initial amount of blocked decree deposits, more than €2,5 bn have been released earlier than expected, while the remaining will be automatically released upon maturity on 31 January 2015. The majority of the deposits released have remained with the Bank, evidencing the growing confidence of customers towards the Bank.

The Bank's deleveraging efforts continue with gross loans declining by 2,2% during the third quarter of 2014 to €24,7 bn as at 30 September 2014[7]. In total, there was a 13% reduction of gross loans between 30 June 2013 and 30 September 2014. Gross loans in Cyprus totalled €21,9 bn and accounted for 88% of gross loans at 30 September 2014. The Bank continues to be the single largest credit provider in Cyprus with a 40,5%[8] market share as at 30 September 2014. Loans in Russia (€1,2 bn) and loans in the UK operations (€1,1 bn) accounted for 5% and 4% of total loans respectively.

The Group's customer exposures in accordance with the new business lines are as follows: corporate loans[9] accounted for 20% of gross loans at 30 September 2014, SME[10] loans accounted for 10%, whereas mortgages and consumer loans accounted for 16% and 8%, respectively. The RRD handles 46% of gross loans which are made up of: Mid and Large Corporates 22%, SMEs 6% and loans in Recoveries 18%. In terms of exposures by economic sector, loans in the construction sector and in real estate development accounted for 17% and 15%, respectively of gross loans at 30 September 2014.

B.1.3 Eurosystem Funding

The Bank's Eurosystem funding reliance stands at €8,6 bn as at 30 of September 2014 comprising ELA of €7,68 bn and ECB of €920 mn. Proceeds from the €1 bn share capital increase completed in September 2014 and from deleverage were used to reduce ELA by €1,1 bn during the third quarter of 2014 to €7,68 bn as at 30 September 2014 (accounting for 28% of total assets) from €8,78 bn as at 30 June 2014 (31% of total assets) and €11,1 bn as at 30 June 2013 (34% of total assets). During the third quarter of 2014, the ECB funding was reduced by €480 mn to €920 mn as at 30 September 2014 from €1,4 bn as at 30 June 2014. Post 30 September 2014, ELA was reduced by a further €180 mn and ECB funding was reduced by a further €30 mn.

B.1.4 Loan portfolio quality

The quality of the Group's loan portfolio continues to be challenged primarily by the on-going recession in Cyprus and the delay in the introduction of the appropriate legislation in the hands of the Bank to enable it to engage effectively with borrowers in Cyprus.

Loans past due for more than 90 days (90+ DPD)[11] totalled €12.978 mn at 30 September 2014 and accounted for 52% of gross loans (90+ DPD ratio). 90+ DPD increased by 3% or €387 mn during the third quarter of 2014, compared to an increase of 4% or €459 mn during the second

[6] The *Enforcement of Temporary Restrictive Measures on Transactions of Bank of Cyprus Public Co Ltd in case of Emergency of 2013 issued by the Ministry of Finance on 30 July 2013.* Deposits totalling €2,8 bn (about 37,4% of the uninsured deposits) remained blocked in the form of three equal fixed term deposits with terms of 6, 9, and 12 months respectively, beginning 1 August 2013. The Bank had the right to renew them for an additional equal term at the same interest rates, depending on market conditions. Once these deposits are unblocked, the funds are subject to the general restrictive measures applicable at the time.

[7] Gross loans are presented before the deduction of the fair value adjustment on initial recognition relating to Laiki's loans amounting to €1,6 bn.

[8] Based on Central Bank of Cyprus data.

[9] Corporate clients for the Cyprus loan portfolio are businesses that have total loans above €6 mn and turnover of above €10 mn. The Corporate sector includes loans booked in the International Business and Wealth Management Divisions.

[10] SME clients for the Cyprus loan portfolio are businesses that have total loans less than €6 mn and turnover less than €10 mn.

[11] Loans in arrears for more than 90 days (90+ DPD) are defined as loans with a specific provision (i.e. impaired loans) and loans past-due for more than 90 days but not impaired.

quarter of 2014, adjusting for the disposal of the Ukrainian operation and of loans in Serbia. The increase in the 90+ DPD primarily relates to the Cypriot operations where the on-going recessionary conditions are negatively affecting the performance of the retail and SME portfolio. The provisioning coverage ratio of 90+ DPD[12] totalled 38% at 30 September 2014, while taking into account tangible collateral at fair value, 90+ DPD are fully covered.

Non-performing loans (NPLs) calculated as per the Central Bank of Cyprus (CBC) rules effective from 1 July 2013[13], totalled €14.735 mn at 30 September 2014 (compared to €14.581 mn at 30 June 2014) and accounted for 60% of gross loans. The provisioning coverage ratio of NPLs totalled 34% at 30 September 2014. As at 30 September 2014, the difference between NPLs and 90+ DPD totalled €1.757 mn, reflecting the fact that restructured loans remain classified as NPLs for a longer period. As at 30 September 2014, the NPLs ratio comprises (a) **Loans that have been restructured and are less than 90 days past due** (9% of gross loans) and (b) **Loans more than 90 days past due or Loans that have been restructured and are more than 90 days past due** (51% of gross loans).

Breakdown of Non-performing loans (as per CBC rules)	30.09.2014 (€ mn)	30.09.2014 % of gross loans	30.06.2014 (€ mn)	30.06.2014 % of gross loans
Loans that have been restructured and are less than 90 days past due	2.272	9%	2.357	9%
Loans more than 90 days past due or Loans that have been restructured and are more than 90 days past due	12.463	51%	12.224	49%
Non-performing loans (as per CBC rules)	**14.735**	**60%**	**14.581**	**58%**
90+ DPD (as per financial statements definition)	**12.978**	**52%**	**12.591**	**50%**

B.2 Income Statement Analysis

B.2.1 Analysis of income and expenses

The Group's net interest income (NII) and net interest margin (NIM) for the nine months ended 30 September 2014 were €790 mn and 4,03% respectively. Both NII and NIM continue to be affected by the current situation in Cyprus and the current composition of the Group's funding whereby 31% of the Group's balance sheet was funded by Eurosystem funding (ECB funding and ELA) as at 30 September 2014. NII and NIM for the third quarter of 2014 were €244 mn and 3,83%, respectively (compared to €279 mn and 4,26% for the second quarter of 2014). The reduction in the NII during the third quarter of 2014 was mainly due to the repayment of €950 mn of a Cyprus sovereign bond held by the Bank and the reduction in the customer spread due to lower lending rates.

Non-interest income for the third quarter of 2014 was €47 mn compared to €31 mn for the second quarter of 2014 and €73 mn for the first quarter of 2014. The fluctuation in non-interest income

[12] Defined as accumulated provisions as a percentage of gross loans in arrears for more than 90 days (90+ DPD).
[13] Non-Performing Loans (NPL) as per the Central Bank of Cyprus Directive: In accordance with the directive, a loan is considered as non-performing when it shows arrears of more than 90 days or if it has been restructured and at the time of restructuring presented arrears for a period of more than 60 days, regardless of tangible or other collateral. More specifically a NPL is defined as a loan which has arrears (of interest or capital or any other charges) for a period of more than 90 days, an overdraft in excess of its contractual limit on a continuous basis for a period of more than 90 days and a restructured facility which at the time of restructuring was classified as NPL or has arrears/excesses for a period of more than 60 days. Restructured loans remain as NPLs for 6 months following the commencement of the new repayment schedule of capital instalments or in the case of gradual increasing instalments, six months from the first month from which the higher instalment is due. In case of lump-sum payments at maturity, the loan remains as NPL until its maturity.
It is noted that **the European Banking Authority (EBA) has published its final reporting standards on forbearance and non-performing exposures**. It is anticipated that before the end of the current year these standards will be enacted into law and with their implementation, the current Directive of the Central Bank of Cyprus for the Definition of Non-Performing Loans and Restructured Credit Facilities will be suspended. As a result, the data on non-performing and restructured credit facilities will differ.

reflects the fact that the second quarter was negatively affected by the impairment of Laiki related exposures that were transferred to the Bank (totalling €32 mn).

Total income for the nine months ended 30 September 2014 was €941 mn. Total income for the third quarter of 2014 was €291 mn, compared to €310 mn for the second quarter of 2014.

Total expenses for the nine months ended 30 September 2014 amounted to €367 mn, of which 55% related to staff costs (€202 mn) and 45% to other operating expenses (€165 mn). The cost to income ratio for the nine months ended 30 September 2014 was 39%.

B.2.2 Provisions for impairment of customer loans

The provision charge for the nine months ended 30 September 2014 was €492 mn, with the annualised charge for impairment of loans amounting to 2,6% of gross loans, compared to an annualised charge of 3,7% for 2013[14]. As at 30 September 2014, accumulated provisions, including the fair value adjustment on initial recognition of the portfolio acquired from Laiki, reached €4.948 mn (compared to €4.879 mn at 30 June 2014 and €4.979 mn at 31 December 2013) and amounted to 20,0% of gross loans (compared to 19,3% at 30 June 2014 and 18,6% at 31 December 2013).

B.2.3 Profit after tax excluding one-off items

Profit after tax excluding one-off items (relating to restructuring costs, discontinued operations and net profit from disposal of non-core assets) for the nine months ended 30 September 2014 totalled €84 mn. Profit after tax excluding one-off items for the third quarter of 2014 totalled €6 mn, at the same level as the second quarter of 2014. Profit after tax excluding one-off items in the Cyprus operations for the nine months ended 30 September 2014 totalled €171 mn.

B.2.4 One-off items

One-off items (relating to restructuring costs, discontinued operations and net profit from disposal of non-core assets) for the nine months ended 30 September 2014 totalled €8 mn. Restructuring costs for the nine months ended 30 September 2014 totalled €32 mn and primarily relate to external advisors' fees and other expenses, including an accrual for property transfer fees, relating to the Group's restructuring. Loss from discontinued operations for the nine months ended 30 September 2014 totalled €36 mn. The overall impact from the disposal of non-core assets during the nine months ended 30 September 2014 was a profit of €60 mn. This is made up of a loss from the disposal of the Ukrainian operations of €114 mn, profit from the disposal of the investment in Banca Transilvania of €47 mn, profit from the disposal of the loans in Serbia of €27 mn and profit from the early repayment of a sovereign bond issued by the Republic of Cyprus of €100 mn.

B.2.5 Profit after tax

Profit after tax attributable to the owners of the Bank for the nine months ended 30 September 2014 totalled €76 mn. Loss after tax attributable to the owners of the Bank for the third quarter of 2014 totalled €5 mn, compared to a profit of €50 mn for the second quarter of 2014. Profit after tax for the second quarter of 2014 benefited significantly from a profit of €60 mn related to the disposal of non-core assets.

[14] The provisioning charge ratios are calculated based on the gross loans before the deduction of the fair value adjustment on initial recognition relating to Laiki's loans amounting to €1,6 bn (compared to €1,8 bn at 31 March 2014 and €1,9 bn at 31 December 2013).

C. Outlook

The Group has prepared a Restructuring Plan which has been approved by the Central Bank of Cyprus in November 2013. The Restructuring Plan charts the Group's strategic direction and ensures the restoration of the Group's viability[15].

With the Cypriot operations accounting for 88% and 84% of the Group's loans and deposits respectively, the **Bank's financial performance is highly correlated to the economic and operating conditions in Cyprus**. Although the economic situation in Cyprus remains challenging, the economy is proving relatively resilient. According to the European Commission autumn economic forecasts, real GDP for 2014 is forecast to contract by 2,8%, which is substantially less than the 4,8% contraction that was forecast in the spring forecast. The economy is expected to gain momentum in 2015-2016 driven by net exports whilst private consumption will remain weak due to wage contraction and continued deleveraging.

The Troika, in its consultation following the fifth programme review that ended in July 2014 notes the significant progress achieved since the beginning of the programme and brings attention to the challenges that still lie ahead. Most importantly the Troika in its consultation highlights the urgent need to address the rise in non-performing loans, boosting capital buffers and advancing the restructuring process in the banking sector. Addressing the problem of rising non-performing loans is required in order to strengthen the banks' balance sheets and reduce private sector indebtedness.

Following its €1 bn pre-emptive capital increase completed in September 2014, the Bank passed the ECB's Comprehensive Assessment, as announced on 26 October 2014. The share capital increase generated a comfortable capital buffer, ensuring that the Bank could withstand even the adverse stress scenario envisaged by the authorities. With the Bank proceeding with a Retail Offer of up to €100 mn of new ordinary shares, there will be a 40 basis points positive impact on the Bank's regulatory capital ratios, assuming a full take up of the Retail Offer. The Bank's strengthened capital position and the passing of the ECB Comprehensive Assessment are expected to further strengthen the confidence of customers and other stakeholders towards the Bank. Going forward, the Bank will continue to ensure that appropriate capital levels are maintained reflecting the economic environment and the challenges being faced.

Tackling the Bank's loan portfolio quality is of utmost importance and a top priority for the Bank's management. The establishment of the **Restructuring and Recoveries Division (RRD**) has brought a major change in the way the Bank is managing its delinquent portfolio. Since it was set up the RRD has put mechanisms in place to ensure delinquencies in all portfolios are addressed at the earliest possible stage. However, for the Bank to be successful in tackling its loan portfolio quality problem, there has to be the necessary changes in the legislation for foreclosures and insolvency that would prevent strategic defaults and would introduce the appropriate moral hazard in the relationship between the Bank and the borrowers.

The **provisions for impairment of customer loans** are expected to remain elevated and will be driven by the default rate of borrowers and by the likely further reductions in collateral values. With the Cypriot economy expected to contract during 2014 and with certain sectors of the economy, such as construction and real estate development, continuing to be subdued, the performance of our borrowers will continue to be challenged, putting pressure on the quality of the loan portfolio.

Following the Comprehensive Assessment, which was fundamentally a prudential exercise, the Single Supervisory Mechanism (SSM) has requested the Group to review certain of its accounting estimates relating to provisions in light of the higher degree of conservatism applied in the AQR. If required, any such changes in estimates would be reflected in the Group's financial statements for

[15] Exogenous factors such as the failure to implement the policy reforms requested by Troika that could affect and/or delay the disbursement of the financial assistance to Cyprus, a deeper and prolonged economic recession, further significant increase in unemployment, a sharper reduction in real estate prices, as well as factors that could dent the fragile confidence of customers and delay the return of confidence to the Cyprus banking system, could derail and affect the execution of the Restructuring Plan.

year 2014. Further, while the AQR and stress test did not show a capital shortfall for the Group after giving effect to the Capital Raising, in connection with the AQR, the SSM has requested the Bank to review certain of its accounting estimates, such those relating to provisions, on a prospective basis. This may adversely affect the Bank's capital position going forward. It is noted that the total AQR adjustments for the Bank as at 31 December 2013 amounted to €731 mn, of which €277 mn related to specific provisions and €454 mn related to collective provisions. The Bank considers that the AQR adjustments calculated as part of the Comprehensive Assessment in no way indicate that the Company was not in compliance with International Financial Reporting Standards. Moreover, it is noted that the Bank has not been made aware, in the context of the AQR, of any accounting errors or of any of its accounting policies not being in compliance with International Financial Reporting Standards.

The Bank is **stepping up its marketing efforts to attract deposits and to improve its funding structure**. The Bank's efforts will be underpinned by the likely positive impact of the Bank's strengthened capital position and successful passing of the ECB Comprehensive Assessment on the confidence of customers and other stakeholders towards the Bank. Out of the €2,8 bn initial amount of blocked decree deposits, more than €2,5 bn have been released earlier than expected, while the remaining will be automatically released upon maturity on 31 January 2015. The majority of the deposits released have remained with the Bank, evidencing the growing confidence of customers towards the Bank.

The Bank's significantly strengthened capital position will **enhance its funding options and facilitate access to the capital markets**. The Bank currently has in issue a €1 bn covered bond that is placed as collateral with the Central Bank of Cyprus for accessing ELA. There is growing investor interest for the said covered bond and the Bank is considering placing this bond with institutional investors in the near future, subject to market conditions. Furthermore, depending on market conditions and investor appetite, the Bank will assess the possibility of selling senior unsecured bonds to institutional investors. Proceeds from accessing the debt markets shall contribute to the reduction of ELA.

As part of its **deleveraging strategy**, and through specific, deliberate and well-timed actions, the Bank has managed to reduce its risk profile, to enhance its liquidity position and to improve its capital position. The Group sold its Ukrainian operations, it has disposed its investment in Romanian Banca Transilvania and its loans in Serbia during the second quarter of 2014. The disposals fall under the Group's strategy of focusing on core businesses and markets and disposing of operations that are considered as non-core and are being implemented at a faster pace than what was anticipated in the Restructuring Plan. During the third quarter of 2014, the Bank sold assets in Romania (related to the owner of the JW Marriott Bucharest Grand Hotel) enhancing its liquidity by €95 mn and achieving a small positive impact to its capital position. Post 30 September 2014, the Bank sold the excess loan portfolio in the UK inherited from ex-Laiki and largely comprising of residential and commercial real estate-backed facilities, enhancing its liquidity and achieving a small positive impact on its CET1 ratio due to the reduction in risk weighted assets. Currently, the Bank is running a process to dispose its remaining Romanian loan and real estate portfolio. Furthermore, the Bank has appointed advisors to assess its strategic options relating to its Russian assets. Finally, the Bank continues its efforts to dispose real estate related assets in Greece and Cyprus. It is noted that the disposal of non-core assets will be driven by risk mitigation and capital considerations.

On 20 November 2014, the Bank held an Annual General Meeting of shareholders which elected a new board of directors. Following the AGM, the Board of Directors convened a meeting in which Dr. Josef Ackermann was elected as Chairman and Messrs Wilbur Ross and Vladimir Strzhalkovskiy were elected Vice-Chairmen. Overall, the new Board of Directors comprises of ten members, including two executive directors: Mr. John Patrick Hourican, Chief Executive Officer, and Dr. Christodoulos Patsalides, Finance Director. The number of directors and the composition of the Board is in line with the latest Corporate Governance Directive of the Central Bank of Cyprus, according to which the number of directors should be between seven and thirteen, including at least two executive directors. The vast banking and business experience of new directors, coupled with their status in the international investment and banking scene, bode well for the Bank's future and, in particular, in its efforts to regain the trust of customers and other stakeholders.

D. Key Performance Indicators and Restructuring Plan progress report

Following consultation between the Bank and the Central Bank of Cyprus, the following **Key Performance Indicators (KPIs)**, including medium-term targets, have been selected reflecting the priorities of the Group: Asset quality, Funding, Capital and Efficiency. These will be published on a quarterly basis in order for the public to assess the progress of the Restructuring Plan and the financial performance of the Group.

The below table shows the said KPIs, the medium-term target per each KPI (set at December 2017, which is the end of the Restructuring Plan period) and the latest statistics per each KPI.

BOC Group Key Performance Indicators		**Actual Dec-2013**	**Actual Sep-2014**	**Medium-Term Target Dec-2017**
Asset Quality	90+ Days Past Due provision coverage	38%	38%	>50%
	Provisioning charge (Cost of Risk) (ytd)	3,7%	2,6%	<1,5%
	90+ Days Past Due € mn	13.003	12.978	<10.000
Funding	Loans to Deposits ratio (net)	145%	148%	<150%
Capital	Common Equity Tier 1 capital ratio (transitional)	10,4%	15,4%	>10%
	Leverage ratio (Assets/Equity)	11,1x	7,3x	<12x
Efficiency	Cost-to-Income ratio (ytd)	47%	39%	<45%
	Net Interest Margin (ytd)	3,54%	4,03%	>2,5%
	Number of Branches in Cyprus	133	130	125
	Group Employees in Cyprus	4.247	4.229	<4.100

D.1. Commentary about the evolution of Key Performance Indicators

Asset quality

The provisioning coverage of 90+ DPD totalled 38% at 30 September 2014, at a similar level as at 31 December 2013. The annualised provisioning charge for the nine months ended 30 September 2014 was 2,6%, compared to a provisioning charge of 3,7% for the year ended 31 December 2013.

Funding

The net Loans to Deposits ratio totalled 148% at 30 September 2014, compared to 145% at 31 December 2013.

Capital

The Common Equity Tier 1 capital ratio (on a transitional basis) increased to 15,4% at 30 September 2014, compared to 10,4% as adjusted in accordance with CRD IV/CRR on transitional basis for 31 December 2013. The Leverage ratio has improved to 7,3x at 30 September 2014, compared to 11,1x at 31 December 2013.

Efficiency

The cost to income ratio for the nine months ended 30 September 2014 was 39%, compared to a ratio of 47% for the year ended 31 December 2013. The net interest margin for the nine months ended 30 September 2014 was 4,03%, compared to 3,54% for the year ended 31 December 2013. Branches in Cyprus have been reduced to 130 units compared to 133 units as at 31 December

2013. The number of Group employees in Cyprus totalled 4.229 as at 30 September 2014, compared to 4.247 employees at 31 December 2013.

D.2. Commentary about the operational progress of the Restructuring Plan

In order to ensure timely and effective implementation of its Restructuring Plan, more than 45 distinct work packages have been identified and are being implemented. The High Importance Packages relating to the bank's strategic pillars, including the progress accomplished so far are set out below:

Restructuring and Recoveries Division (RRD)
The creation of the Restructuring and Recoveries Division (RRD), as part of the new organisational structure, aims to manage arrears across all portfolios. A specialist hired from overseas has been appointed to head this critical function. The RRD is responsible for the managing of €11,4 bn of large and delinquent loans in Cyprus with a dedicated workforce of close to 500 people. Since its set up the RRD has put all the mechanisms in place to ensure delinquencies in all portfolios are addressed at the earliest possible stage. Retail loans are addressed via the Collections Call Centre which applies specific contact strategies and the Retail Arrears Management Unit which provides restructuring solutions to viable customers. Business Support Centres have been set up throughout the island to help address SME delinquent clients whereas the Major Corporate and Mid Corporate units of RRD are focused entirely on the larger customers.

Strengthening risk and corporate governance framework
The Risk Management Division (RMD) has been strengthened with a mandate to define sound policies reflecting the newly approved Risk Appetite of the Group and monitor risks in a proactive manner across the business segments. RMD is structured in such a way to ensure all risks across the Group have ownership, accountability and clear reporting lines.

Integration and lean operating model
The new Group organisational structure has been published together with detailed structures for all divisions. The Cyprus branch network reduction is on track with 73 branches closed. The IT systems migration was successfully completed in early June 2014. Through a Voluntary Retirement Scheme and salary cuts implemented during 2013 personnel numbers in Cyprus have been reduced by 24% and personnel expenses by 35% on an annualised basis.

Restoring trust and strengthening of deposit base
Regarding deposits retention, a monitoring mechanism has been set up. New deposit campaigns have been launched. A new marketing/communication plan across all business lines is being implemented. Customer segmentation criteria within Retail have been approved and they will form the basis of deposit retention and gathering strategies.

Deleverage
The Group has disposed its Ukrainian operations, its investment in Romanian Banca Transilvania and the loans in Serbia. During the third quarter of 2014, the Bank sold assets in Romania (related to the owner of the JW Marriott Bucharest Grand Hotel). Post 30 September 2014, the Bank sold the excess loan portfolio in the UK inherited from ex-Laiki and largely comprising of residential and commercial real estate-backed facilities. The Bank is running a process to dispose its remaining Romanian loan and real estate portfolio. The Bank has appointed advisors to assess its strategic options relating to its Russian assets. The Bank continues its efforts to dispose real estate related assets in Greece and Cyprus.

E. Appendix

Consolidated Income Statement					
€ mn	**9M2014**	**3Q2014**	**2Q2014**	**qoq change ±%**	**1Q2014**
Net interest income	790	244	279	-12%	267
Net fee and commission income	131	43	43	+1%	45
Net foreign exchange gains/(losses) and net profits/(losses) on other financial instruments	(21)	(5)	(30)	-81%	14
Insurance income net of insurance claims	35	10	12	-13%	13
Other income/(expenses)	6	(1)	6	n/a	1
Total income	**941**	**291**	**310**	**-7%**	**340**
Staff costs	(202)	(67)	(68)	-1%	(67)
Other operating expenses	(165)	(55)	(53)	+1%	(57)
Total expenses	**(367)**	**(122)**	**(121)**	**+0%**	**(124)**
Profit before provisions for impairment of customer loans, restructuring costs and discontinued operations	**574**	**169**	**189**	**-11%**	**216**
Provisions for impairment of customer loans	(492)	(163)	(183)	-11%	(146)
Share of profit from associates	2	(2)	2	n/a	2
Profit before tax, restructuring costs and discontinued operations	**84**	**4**	**8**	**-68%**	**72**
Tax	(15)	(5)	(8)	-27%	(2)
Loss attributable to non - controlling interests	15	7	6	-	2
Profit after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets	**84**	**6**	**6**	**-15%**	**72**
Restructuring costs	(32)	(11)	(16)	-	(5)
Loss from discontinued operations	(36)	-	-	-	(36)
Net profit on disposal of non-core assets[16]	60	-	60	-	-
Profit/(loss) after tax	**76**	**(5)**	**50**	**n/a**	**31**

	9M2014	3Q2014	2Q2014	qoq change %	1Q2013
Net interest margin	4,03%	3,83%	4,26%	-43 b.p.*	3,99%
Cost to income ratio	39%	42%	39%	+3 p.p.*	36%
Return on average assets	0,3%	(0,1%)	0,7%		0,4%
Return on average equity	3,2%	(0,7%)	7,4%		4,7%
Basic earnings/(losses) per share (cent)	1,54	(0,11)	1,06	-1,17 cent	0,66

* b.p. = basis points, p.p. = percentage points, 100 basis points = 1 percentage point

[16] This relates to the loss on disposal of the Ukrainian operations (€114 mn), the profit on disposal of the stake in Banca Transilvania (€47 mn), the profit on disposal of the loans in Serbia (€27 mn) and the profit from the early part repayment of the Cyprus Government Bond (€100 mn)

Condensed Consolidated Balance Sheet			
€ mn	**30.09.2014**	**31.12.2013**	**±%**
Cash and balances with Central Banks	840	1.240	-32%
Placements with banks	1.577	1.290	+22%
Debt securities, Treasury bills and equity investments	2.578	3.433	-25%
Net loans and advances to customers	19.794	21.764	-9%
Other assets	2.694	2.622	+3%
Total assets	**27.483**	**30.349**	**-9%**
Amounts due to banks	130	196	-34%
Funding from Central Banks	8.604	10.956	-21%
Repurchase agreements	577	594	-3%
Customer deposits	13.330	14.971	-11%
Debt securities in issue	5	1	-
Other liabilities	1.047	889	+18%
Subordinated loan stock	5	5	-
Total liabilities	**23.698**	**27.612**	**-14%**
Share capital	893	4.684	-
Shares subject to interim orders	-	59	-
Capital reduction reserve and share premium	2.506	-	-
Revaluation and other reserves	95	72	-
Retained earnings/(Accumulated losses)	234	(2.152)	-
Shareholders' equity	**3.728**	**2.663**	**+40%**
Non-controlling interests	57	74	-23%
Total equity	**3.785**	**2.737**	**+38%**
Total liabilities and equity	**27.483**	**30.349**	**-9%**

Key Balance Sheet figures and ratios			
	30.09.2014	**31.12.2013**	**±%**
Gross loans (€ bn)	24,7	26,7	-7%
Customer Deposits (€ bn)	13,3	15,0	-11%
Loans to deposits ratio (net)	148%	145%	+3 p.p.*
90+ DPD ratio	52,5%	48,6%	+3,9 p.p.*
90+ DPD provision coverage ratio[1]	38%	38%	-
Capital			
Common Equity Tier 1 capital ratio (CET1)	15,4%	10,4%	+5 p.p.*
Total capital ratio (as calculated under CRD IV)	15,5%	10,6%	+4,9 p.p.*
Risk weighted assets (as calculated under CRD IV) (€ mn)	22.863	23.530	-3%

* b.p. = basis points, p.p. = percentage points, 100 basis points = 1 percentage point

Note 1: Loan quality and provision coverage ratios are calculated as a percentage of gross loans.